

# Section # 5

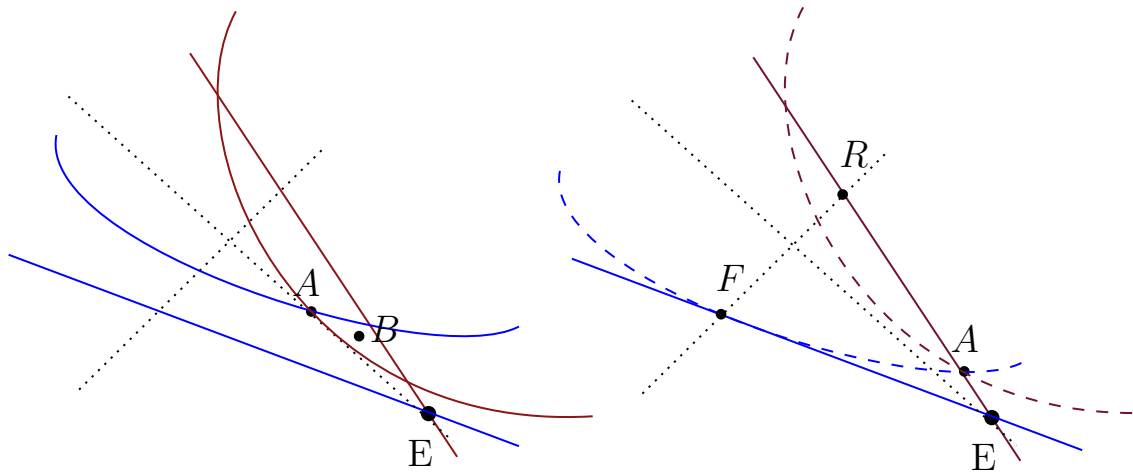
Daniele Caratelli

May 15, 2020

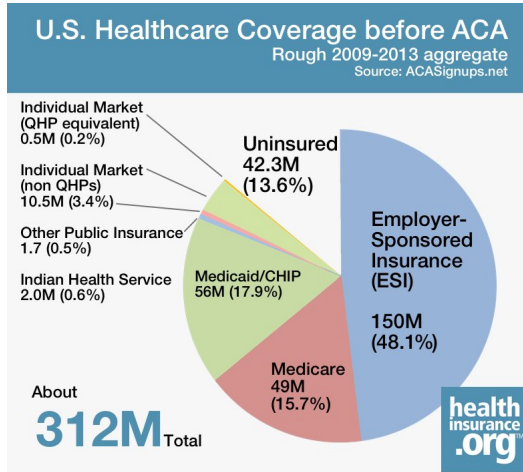
# To Do

- ▶ “Testing” the Rothschild-Stiglitz Model
- ▶ Medicaid and work requirements

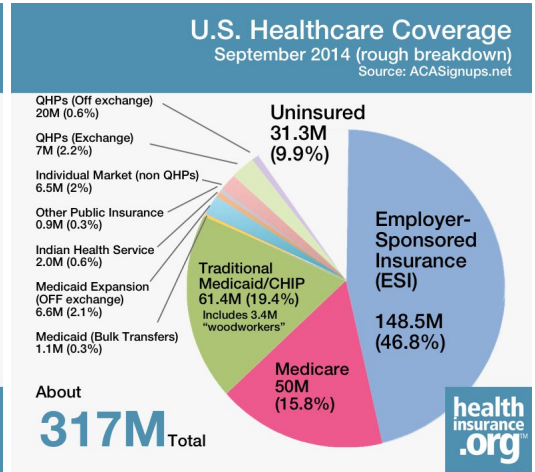
# Reviewing the R-S model



# The US healthcare System:



**Figure:** Pre ACA



**Figure:** Post ACA

# Predictions of R-S model that FAIL in the data.

1. No pooling equilibria, only separating equilibria are possible.
- 2.
- 3.

## Predictions of R-S model that FAIL in the data.

1. No pooling equilibria, only separating equilibria are possible.
2. Unit cost of insurance is increasing.
3. People with higher mortality have more insurance.

# Why does the RS model fail?

1. Pooling vs. separating equilibria:



2. Increasing unit cost of insurance:



3. Less healthy buy more insurance:



# Why does the RS model fail?

## 1. Pooling vs. separating equilibria:

- ▶ Disregards the role of government which “forces” people to pool.
- ▶ Employers are able to convince young and old to pool.

## 2. Increasing unit cost of insurance:

- ▶ Not always true (e.g. life insurance). More insurance bought indicates precautionary behavior.

## 3. Less healthy buy more insurance:

- ▶ Health risk is correlated with important variables (e.g. income).



# Medicaid: a brief history

- ▶ 1965 Medicaid is enacted but was a much smaller program than it is today,
- ▶ today, in all US states, this covers:
  - (some) low-income people,
  - families and children,
  - pregnant women,
  - the elderly,
  - people with disabilities

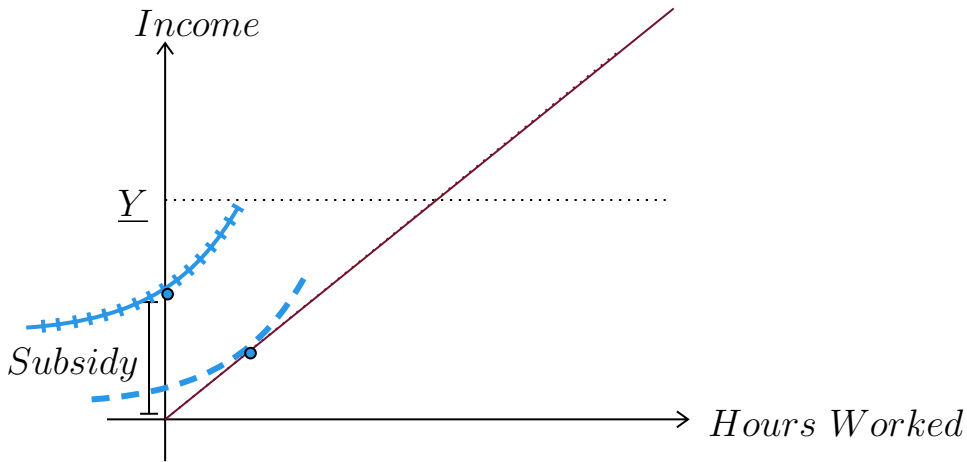
## Medicaid: some facts

- ▶ covers  $\approx 20\%$  of Americans
- ▶ Federal-State partnership:
  - ▶ Fed sets requirements and gives States some flexibility
  - ▶ Fed and States both pay into Medicaid
- ▶ Medicaid serves a diverse population
- ▶ Most of Medicaid is provided through private insurers
- ▶ Care access is quite high under Medicaid → see here
- ▶ Medicaid expenditures are concentrated on the elderly and the disabled → see here

# Work requirements: a brief history

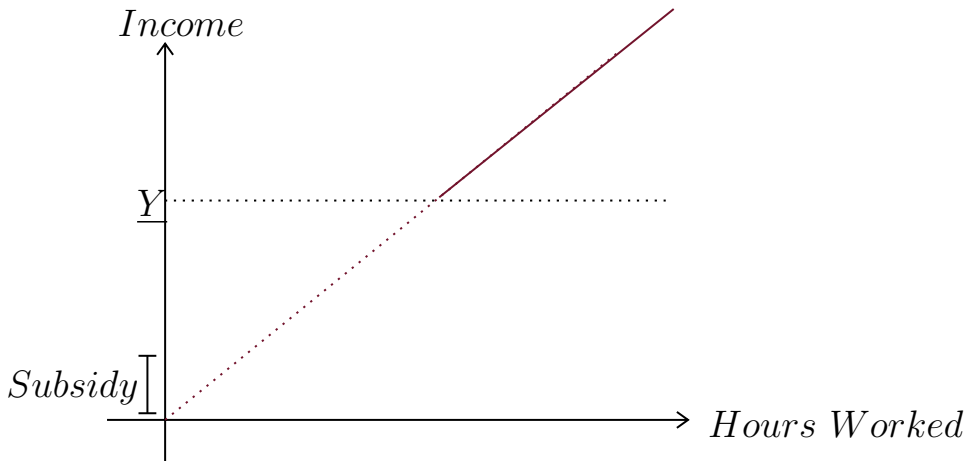
- ▶ Work requirements have been added to many welfare programs (e.g. SNAP) since the 1990's.
- ▶ The present administration has allowed states to experiment with work-requirements on Medicaid.
- ▶ The basic (economic) idea of these requirements are that we don't disincentivize people from working.

# Subsidy type #1

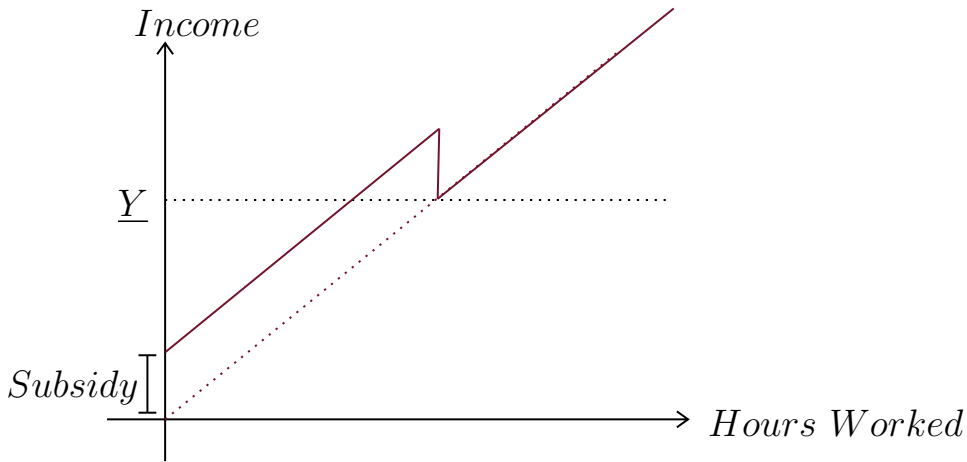


## Subsidy type #2

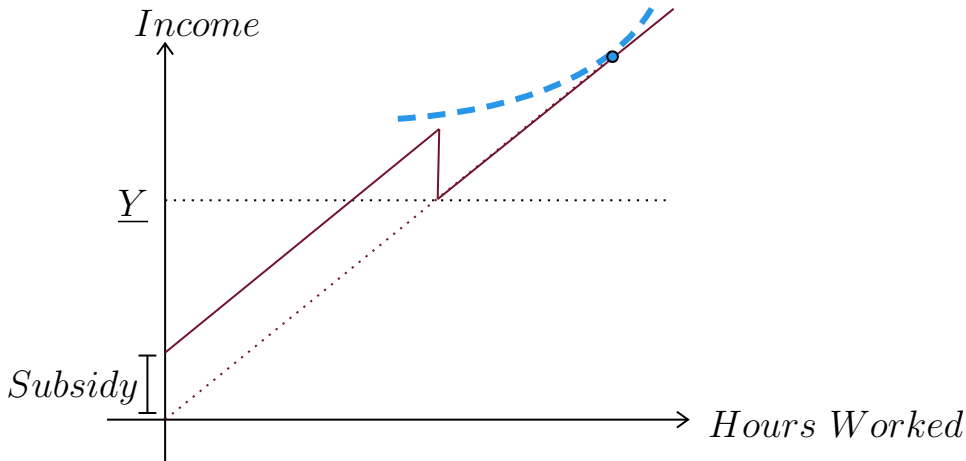
Subsidy for all workers making less than  $\underline{Y}$ .



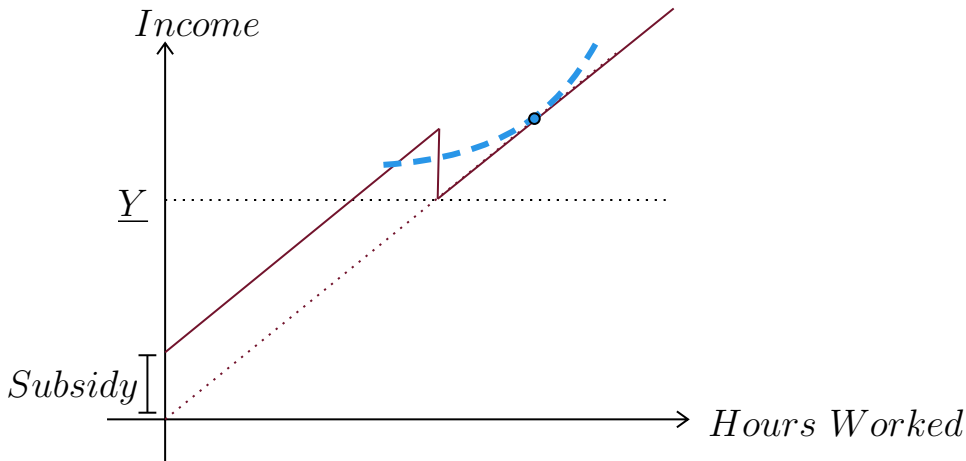
## Subsidy type #2



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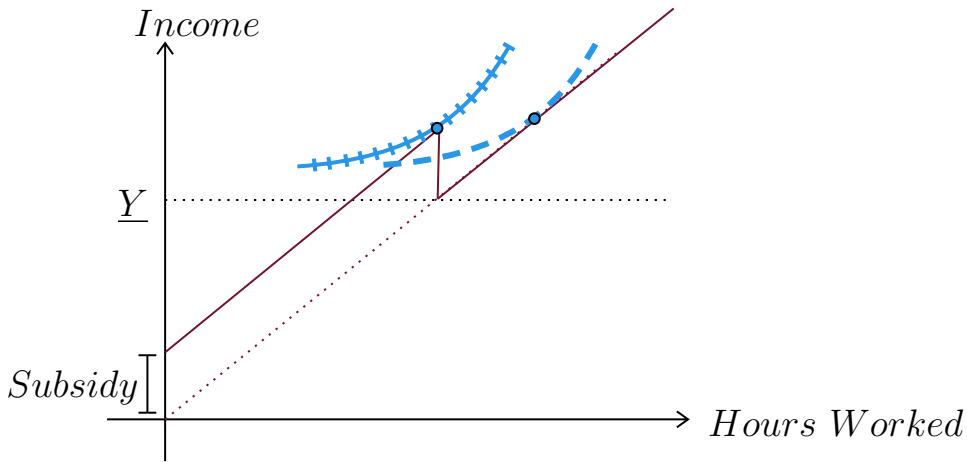


## Subsidy type #2

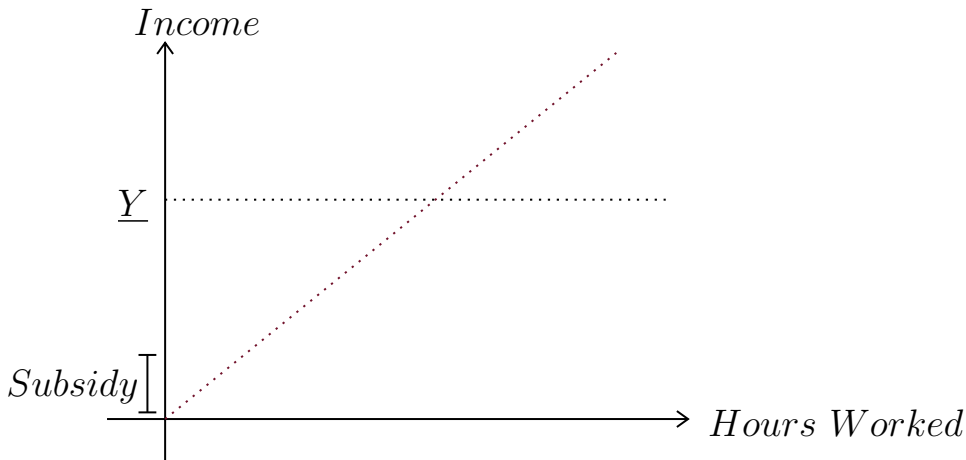




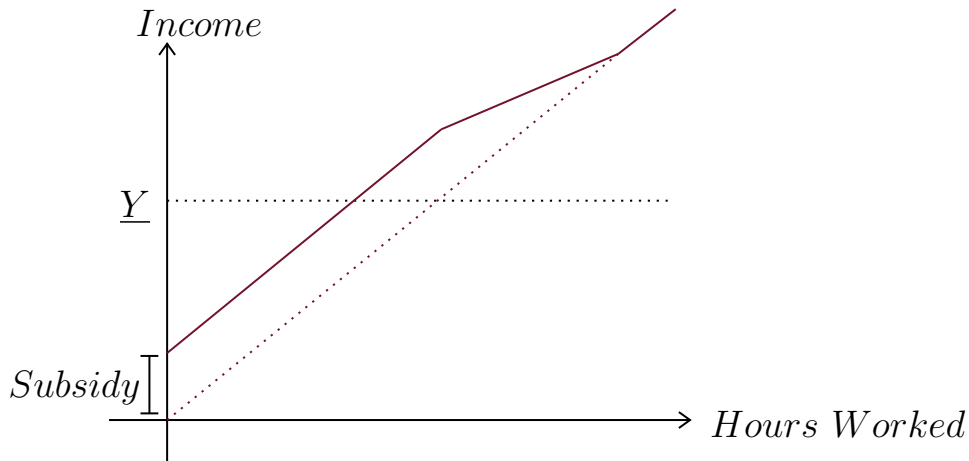
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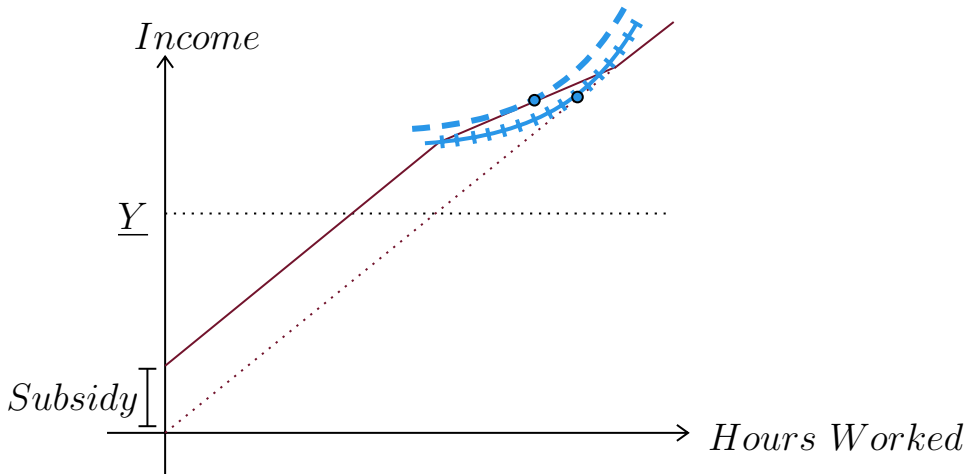
# Possible solutions



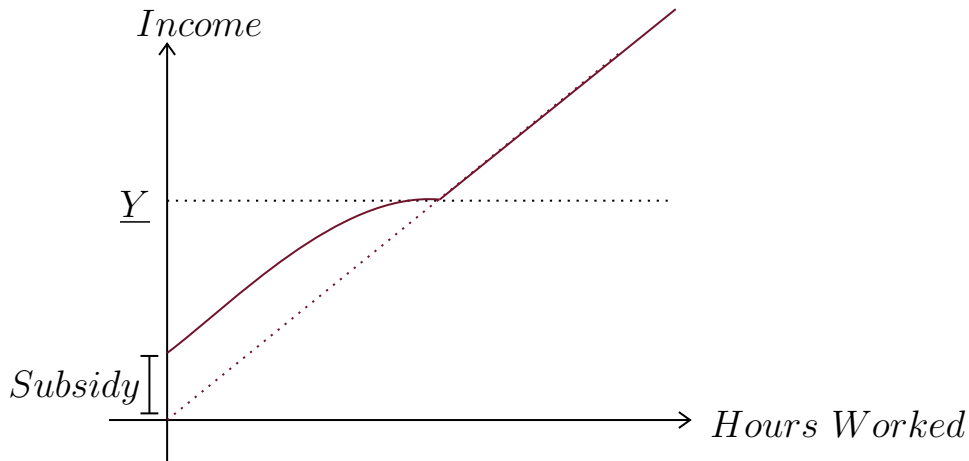
# Possible solutions



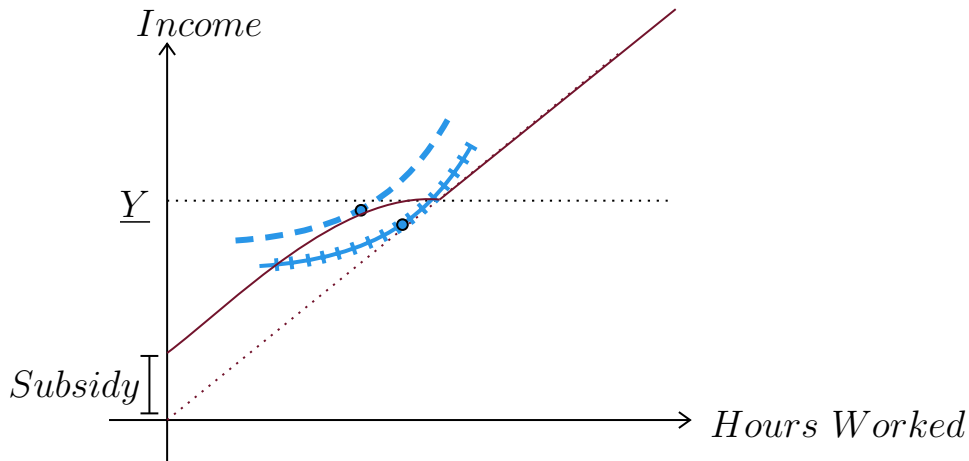
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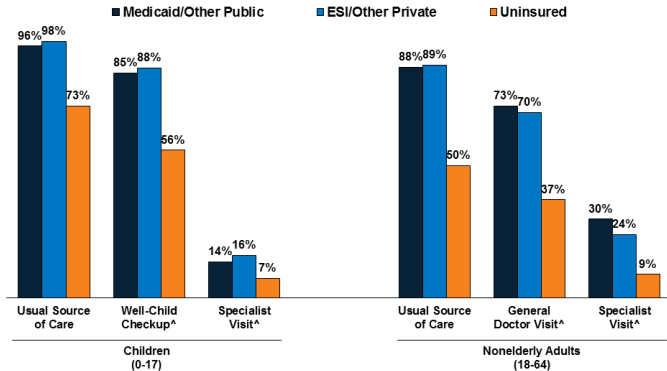


# Possible solutions

- ▶ ... hard to get rid of distortion
- ▶  $\Rightarrow$  in every scenario **people work less than in undistorted economy**
- ▶ There is no perfect solution. Want to find right balance: not disincentivize those able to work from working but also not force people more than they “should”.

Figure 7

Nationally, Medicaid is comparable to private insurance for access to care – the uninsured fare far less well.



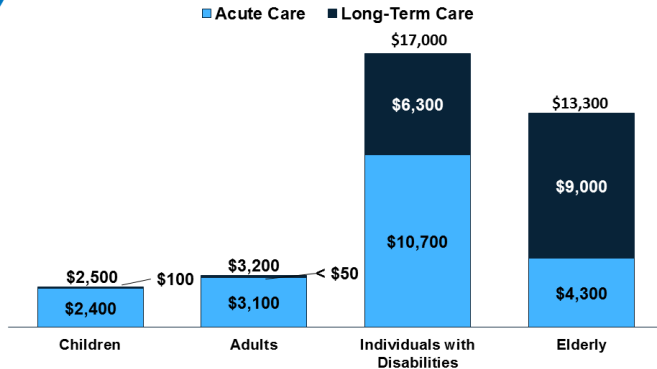
NOTES: ^ Indicates in the past 12 months. Respondents who said usual source of care was the emergency room are not counted as having a usual source of care. All estimates are statistically significant from the uninsured group ( $p < 0.05$ ).  
 SOURCE: Kaiser Family Foundation analysis of the 2017 National Health Interview Survey (NHIS).





Figure 9

Medicaid per enrollee spending is significantly greater for the elderly and individuals with disabilities compared to children and adults.



NOTE: Rounded to nearest \$100. Spending may not sum to totals due to rounding.

SOURCE: Kaiser Family Foundation and Urban Institute estimates based on data from FY 2013 MSIS and CMS-64 reports. Due to lack of data, does not include CO, KS, NC, or RI.

